

SB 415 Testimony Franchises.pdf

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Position: FAV

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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

February 26, 2026

SB 415

Business Regulation – Maryland Franchise Registration and Disclosure Law – Alterations

Good afternoon Vice Chair Hayes and Members of the Finance Committee;

Thank you for the opportunity to present SB 415, the Franchise Reform Act. Maryland is one of thirteen states considered a franchise registration state, indicating the highest level of scrutiny for franchisors seeking to franchise in the state. State oversight is important to protect franchisees from being taken advantage of, but it must be balanced against our economic development goals.

Maryland's franchisors – like those in any state – require federal approval via the federal Franchise Disclosure form. Franchisors must pay a \$500 filing fee and submit additional information to the state for further approval, and they must renew annually. The purpose of the annual state review is to protect franchisees; however, the process is burdensome. SB415 would codify the Maryland Franchise Disclosure Document Renewal Fast-Track Review Pilot Program put in place last year by the Securities Commissioner. The program expedites the review of the franchise registration renewal if the franchisor provides certain information no later than 30 days after the end of the registrant's fiscal year.

The bill clarifies that Maryland franchisees may join associations of franchisees and provides legal protection for doing so. Second, it alters the statute of limitations on certain claims from 3 years after the grant of the franchise to within four years after the grant of the franchise or 2 years after the date the franchise opened to the public, whichever is earlier. Third, the bill requires that the Securities Division establish a standard for the review and approval of incomplete Franchise Disclosure Documents and allows them to use technologies to do so.

The bill also requires reports to evaluate the effectiveness of the fast-track program. The goal of these reports is to ensure that the committee can evaluate the program make further improvements to the franchise process if needed.

This is a first step in a larger goal of fully overhauling and reforming the franchise process in Maryland. Ultimately, the goal is to implement a process that rivals our neighbors in efficiency and allows for more Marylanders to pursue business ownership through franchising.

The Franchise Reform Act will support business ownership in Maryland by providing protections to franchisees and promote economic prosperity and growth. I respectfully request a "Favorable Report" on SB 415.

SB415_FinalReprint

Uploaded by: Pamela Beidle

Position: FAV

SENATE BILL 415

C2

6lr2373
CF 6lr1979

By: **Senator Beidle**
Introduced and read first time: January 29, 2026
Assigned to: Finance

A BILL ENTITLED

1 AN ACT concerning

2 **Business Regulation – Maryland Franchise Registration and Disclosure Law –**
3 **Alterations**
4 **(Franchise Reform Act)**

5 FOR the purpose of altering the period of time within which the Securities Commissioner
6 in the Office of the Attorney General may exercise a power under certain provisions
7 of law governing the sale of franchises; ~~requiring the Securities Commissioner to~~
8 ~~require that a certain franchise registration exemption be indexed to inflation or~~
9 ~~deflation based on a certain index~~; altering the period of time within which an action
10 for liability under a certain provision of law pertaining to franchise offers for sale
11 must be brought; prohibiting a franchisor and certain others from inhibiting the
12 right of franchisees to associate for certain purposes; providing that an action may
13 be brought against a certain franchisor under certain circumstances; establishing
14 the Maryland Franchise Disclosure Document Renewal Fast-Track Review Pilot
15 Program and generally relating to the Maryland Franchise Registration and
16 Disclosure Act.

17 BY repealing and reenacting, with amendments,
18 Article – Business Regulation
19 Section ~~14-102~~, 14-202, 14-210, ~~14-214~~, 14-227, and 14-233
20 Annotated Code of Maryland
21 (2024 Replacement Volume and 2025 Supplement)

22 BY adding to
23 Article – Business Regulation
24 Section 14-219.1 and 14-233
25 Annotated Code of Maryland
26 (2024 Replacement Volume and 2025 Supplement)

27 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
28 That the Laws of Maryland read as follows:

1 Article – Business Regulation

2 ~~14-102.~~

3 ~~The General Assembly finds that:~~

4 ~~(1) THE SALE OF BUSINESS OPPORTUNITIES IS A FIELD THROUGH~~
5 ~~WHICH INDIVIDUALS USE THEIR IDEAS TO CREATE ECONOMIC OPPORTUNITY;~~

6 ~~(2) BUSINESSES ADD TREMENDOUS ECONOMIC VALUE AND DRIVE~~
7 ~~INVESTMENT IN THE STATE THAT CREATES CRITICAL ECONOMIC GROWTH;~~

8 ~~[(1)] (3) the sale of business opportunities is a field in which investment~~
9 ~~problems and deceptive practices are common; and~~

10 ~~[(2)] (4) this subtitle is needed to regulate this field adequately and~~
11 ~~prevent these deceptive practices.~~

12 14-202.

13 (a) The General Assembly finds that:

14 (1) FRANCHISING HAS PLAYED A ROLE IN THE STATE’S ECONOMY BY
15 ENABLING RESIDENTS TO OPEN AND OPERATE BUSINESSES IN THE STATE ~~UNDER~~
16 ~~ESTABLISHED SYSTEMS AND BRANDS;~~

17 (2) the widespread sale of franchises [has], WHILE OFFERING
18 OPPORTUNITIES TO STATE RESIDENTS, ALSO INVOLVES COMPLEX AGREEMENTS
19 AND SUBSTANTIAL INVESTMENTS THAT CAN CREATE AND HAVE created many
20 investment and business [problems] RISKS FOR FRANCHISEES, FRANCHISORS, AND
21 SUBFRANCHISORS; and

22 [(2)] (3) franchisees [have suffered substantial] MAY SUFFER losses
23 when the [franchisor or its representative] FRANCHISEE has not BEEN given complete
24 AND ACCURATE information about:

25 (i) the NATURE OF THE franchisor–franchisee relationship;

26 (ii) the TERMS AND OBLIGATIONS OF THE franchise agreement;

27 and

28 (iii) the business experience AND OPERATIONAL PRACTICES of the
29 franchisor or its representative.

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1 (b) The intent of this subtitle is to:

2 (1) give each prospective franchisee necessary information about any
3 franchise offer;

4 (2) [~~prohibit the sale of franchises if the sale~~] **PROMOTE HONESTY,**
5 **TRANSPARENCY, AND ACCOUNTABILITY, ~~AND FAIR DEALING~~ IN THE OFFER AND SALE OF**
6 **FRANCHISES;**

7 **(3) PREVENT PRACTICES THAT** would [lead to] **RESULT IN** fraud or a
8 likelihood that the franchisor's representations would not be fulfilled; [and]

9 ~~[(3)]~~ **(4)** protect the franchisor–franchisee relationship; **AND**

10 **(5) SUPPORT THE CONTINUED GROWTH OF FRANCHISING AS A**
11 **BUSINESS MODEL IN THE STATE.**

12 14–210.

13 (a) (1) Whenever the Commissioner finds that a person has violated or is about
14 to violate this subtitle or a regulation adopted or order passed under it, the Commissioner
15 may order the person to cease and desist from the further offer to sell or sale of the franchise
16 until the offer or sale complies with this subtitle.

17 (2) After passage of a cease and desist order, the alleged violator may
18 submit to the Commissioner a written request for a hearing.

19 (3) The hearing shall begin:

20 (i) within 15 business days after the Commissioner receives the
21 request for a hearing; or

22 (ii) at a later date, with the consent of the alleged violator.

23 (4) Unless there is a timely hearing, the cease and desist order is rescinded.

24 (b) (1) Whenever the Commissioner finds that a person has violated or is about
25 to violate this subtitle or a regulation adopted or order passed under it, the Commissioner
26 may sue in the circuit court to enjoin the violation or enforce this subtitle or the regulation
27 or order.

28 (2) The court shall:

29 (i) determine if a violation of this subtitle has been or is about to be
30 committed; and

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1 (ii) if so, pass any order the court considers necessary to prevent the
2 violation or remove the effects of the violation and prevent it from continuing or being
3 renewed in the future.

4 (3) The court may exercise all equitable powers necessary for this purpose,
5 including:

6 (i) injunction;

7 (ii) revocation, forfeiture, or suspension of the charter authority or
8 privileges of a business organization operating under the laws of the State;

9 (iii) dissolution of a corporation or association organized under the
10 laws of the State;

11 (iv) suspension or termination of the right of a corporation or
12 association organized under the laws of another state or country to do business in the State;

13 (v) restitution;

14 (vi) restraining order;

15 (vii) award of damages to be paid by a franchisor or subfranchisor to
16 a person injured by a violation of this subtitle; and

17 (viii) appointment of a receiver or conservator.

18 (4) The court may not require the Commissioner to post bond.

19 (c) The Commissioner may not exercise a power under this section more than [3]
20 5 years after the violation occurs.

21 ~~14-214.~~

22 ~~(a) Except as otherwise provided in this subtitle, a person must register the offer~~
23 ~~of a franchise with the Commissioner before the person offers to sell, through~~
24 ~~advertisement or otherwise, or sells the franchise in the State.~~

25 ~~(b) The registration requirement of this section does not apply to:~~

26 ~~(1) a transaction by an executor, administrator, sheriff, receiver, trustee in~~
27 ~~bankruptcy, guardian, or conservator;~~

28 ~~(2) an offer to sell or sale of a franchise that is substantially similar to a~~
29 ~~franchise already owned by the offeree or buyer; and~~

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1 ~~(2) any other transaction that the Commissioner exempts by regulation~~
2 because:

3 ~~(i) the transaction is not within the purpose of this subtitle; and~~

4 ~~(ii) the registration of the transaction is not necessary or appropriate~~
5 ~~in the public interest or for the protection of investors.~~

6 ~~(e) (1) The registration requirement of this section does not apply to the offer~~
7 ~~to sell or sale of a franchise by a franchisee for the franchisee's own account, or the offer to~~
8 ~~sell or sale of the entire area franchise owned by a subfranchisor for the subfranchisor's~~
9 ~~own account.~~

10 ~~(2) A sale is not effected by or through a franchisor merely because a~~
11 ~~franchisor has a right to approve or disapprove a different franchisee.~~

12 ~~(d) (1) The Commissioner may require by regulation that a franchisor or~~
13 ~~subfranchisor who claims under subsection (b)(2) of this section to be exempt from the~~
14 ~~registration requirements of this section:~~

15 ~~(i) file with the Commissioner a notice of claim of exemption in the~~
16 ~~form that the Commissioner requires; and~~

17 ~~(ii) pay a fee of \$250.~~

18 ~~(2) The franchisor or subfranchisor shall sign and verify the notice of claim~~
19 ~~of exemption.~~

20 ~~(E) THE COMMISSIONER SHALL REQUIRE THE FRANCHISOR NET EQUITY~~
21 ~~AMOUNTS SET FORTH IN THE FRANCHISE REGISTRATION EXEMPTION UNDER~~
22 ~~COMAR 02.02.08.10D.1 TO ACCOUNT FOR INFLATION OR DEFLATION BASED ON~~
23 ~~THE CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS BY THE U.S.~~
24 ~~DEPARTMENT OF LABOR.~~

25 14-227.

26 (A) THIS SECTION APPLIES ONLY TO:

27 (1) A FRANCHISEE ~~OR FRANCHISOR~~ WHO IS A RESIDENT OF THE
28 STATE; OR

29 (2) A FRANCHISED BUSINESS THAT OPERATES OR WILL BE OPERATED
30 IN THE STATE.

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1 [(a)] (B) (1) A person who sells or grants a franchise is civilly liable to the
2 person who buys or is granted a franchise if the person who sells or grants a franchise offers
3 to sell or sells a franchise:

4 (i) without the offer of the franchise being registered under this
5 subtitle; or

6 (ii) by means of an untrue statement of a material fact or any
7 omission to state a material fact necessary in order to make the statements made, in light
8 of the circumstances under which they are made, not misleading, if the person who buys or
9 is granted a franchise does not know of the untruth or omission.

10 (2) In determining liability under this subsection, the person who sells or
11 grants a franchise has the burden of proving that the person who sells or grants a franchise
12 did not know and, in the exercise of reasonable care, could not have known of the untruth
13 or omission.

14 [(b)] (C) The person who buys or is granted a franchise may sue under this
15 section to recover damages sustained by the grant of the franchise.

16 [(c)] (D) A court may order the person who sells or grants a franchise to:

17 (1) rescind the franchise; and

18 (2) make restitution to the person who buys or is granted a franchise.

19 [(d)] (E) (1) Joint and several liability under this section extends to:

20 (i) each person who directly or indirectly controls a person liable
21 under this section;

22 (ii) each partner in a partnership liable under this section;

23 (iii) each principal officer or director of a corporation liable under this
24 section;

25 (iv) each other person that has a similar status or performs similar
26 functions as a person liable under this section; and

27 (v) each employee of a person liable under this section, if the
28 employee materially aids in the act or transaction that is a violation under this subtitle.

29 (2) However, liability under this subsection does not extend to a person
30 who did not have knowledge of or reasonable grounds to believe in the existence of the facts
31 by which the liability is alleged to exist.

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1 [(e)] (F) An action under this section must be brought within [3] THE EARLIER
2 OF:

3 (1) ~~5~~ 4 years after the grant of the franchise; OR

4 (2) ~~THE LATER OF:~~

5 ~~(i) 3 YEARS AFTER THE GRANT OF THE FRANCHISE; OR~~

6 ~~(ii) 2 YEARS AFTER THE DATE OF THE INITIAL COMMENCEMENT~~
7 ~~OF OPERATIONS OF THE FRANCHISE~~ THE FRANCHISE OPENED TO THE PUBLIC.

8 14-233.

9 (A) A FRANCHISOR MAY NOT, DIRECTLY OR INDIRECTLY, THROUGH ANY
10 OFFICER, AGENT, OR EMPLOYEE:

11 (1) RESTRICT OR INHIBIT THE RIGHT OF A FRANCHISEE TO JOIN A
12 TRADE ASSOCIATION CONSISTING OF OTHER FRANCHISEES OF THE SAME
13 FRANCHISE; OR

14 (2) PROHIBIT THE RIGHT OF FREE ASSOCIATION AMONG
15 FRANCHISEES FOR ANY LAWFUL PURPOSE.

16 (B) (1) A PERSON WHO VIOLATES SUBSECTION (A) OF THIS SECTION MAY
17 BE SUED IN CIRCUIT COURT FOR:

18 (I) TEMPORARY OR PERMANENT INJUNCTIVE RELIEF;

19 (II) DAMAGES, IF ANY; AND

20 (III) COSTS OF THE SUIT, INCLUDING ANY REASONABLE
21 ATTORNEY'S FEES.

22 (2) THE INJUNCTIVE RELIEF MAY BE SOUGHT FROM THE CIRCUIT
23 COURT IN THE COUNTY WHERE THE ~~INDIVIDUAL WHO IS ALLEGED TO BE IN~~
24 ~~VIOLATION OF SUBSECTION (A) OF THIS SECTION~~ OWNER OF THE FRANCHISED BUSINESS RESIDES OR THE
FRANCHISE
25 AFFECTED BY THE VIOLATION CONDUCTS BUSINESS.

26 (3) WHEN SEEKING AN INJUNCTION UNDER THIS SECTION, THE
27 PLAINTIFF MAY NOT BE REQUIRED TO ALLEGE OR PROVE ACTUAL DAMAGES
28 SUFFERED TO OBTAIN INJUNCTIVE RELIEF.

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1 (4) AN ACTION UNDER THIS SUBSECTION MUST BE BROUGHT WITHIN
2 THE EARLIER OF:

3 (I) 2 YEARS AFTER THE ALLEGED VIOLATION OCCURRED; OR

4 (II) 1 YEAR AFTER THE DISCOVERY BY THE PLAINTIFF OF THE
5 FACTS OF THE ALLEGED VIOLATION.

6 [14-233.] 14-234.

7 This subtitle is the Maryland Franchise Registration and Disclosure Law.

8 SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland read
9 as follows:

10 **Article – Business Regulation**

11 **14-219.1.**

12 (A) IN THIS SECTION, “PROGRAM” MEANS THE MARYLAND FRANCHISE
13 DISCLOSURE DOCUMENT RENEWAL FAST-TRACK REVIEW PILOT PROGRAM.

14 (B) (1) THERE IS A MARYLAND FRANCHISE DISCLOSURE DOCUMENT
15 RENEWAL FAST-TRACK REVIEW PILOT PROGRAM.

16 (2) THE COMMISSIONER SHALL ADMINISTER THE PROGRAM.

17 (C) (1) THE COMMISSIONER SHALL ESTABLISH A STANDARD FOR THE
18 REVIEW AND APPROVAL OF INCOMPLETE FRANCHISE DISCLOSURE DOCUMENTS, INCLUDING FRANCHISE
DISCLOSURE DOCUMENTS THAT WERE NOT SUBMITTED FOR PARTICIPATION IN THE PROGRAM.

19 (2) THE COMMISSIONER MAY USE A TECHNOLOGY SYSTEM TO ASSIST
20 THE REVIEW OF DOCUMENTS AS REQUIRED UNDER THIS SECTION.

21 (D) THE COMMISSIONER SHALL ADOPT REGULATIONS TO CARRY OUT THIS
22 SECTION, INCLUDING REGULATIONS ESTABLISHING REQUIREMENTS AND
23 PROCEDURES FOR THE SUBMISSION AND APPROVAL OF FRANCHISE DISCLOSURE
24 DOCUMENTS.

25 (E) ON OR BEFORE SEPTEMBER 30, 2031, THE COMMISSIONER SHALL, IN
26 ACCORDANCE WITH § 2-1257 OF THE STATE GOVERNMENT ARTICLE, SUBMIT TO
27 THE SENATE FINANCE COMMITTEE AND THE HOUSE ECONOMIC MATTERS
28 COMMITTEE AND POST ON THE WEBSITE OF THE OFFICE OF THE ATTORNEY
29 GENERAL A REPORT THAT INCLUDES:

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1 (1) THE NUMBER OF FRANCHISE DISCLOSURE DOCUMENTS
2 SUBMITTED BY FRANCHISORS UNDER THE PROGRAM;

3 (2) THE NUMBER OF FRANCHISORS THAT PARTICIPATED IN THE PROGRAM;

(3) THE AMOUNT OF TIME REQUIRED TO ADMINISTER THE PROGRAM;

4 ~~(3)~~ (4) AN ANALYSIS OF WHETHER THERE WAS ANY IMPACT ON
5 FRANCHISE DISCLOSURE DOCUMENTS SUBMITTED OUTSIDE THE PROGRAM,
6 INCLUDING THE AMOUNT OF TIME REQUIRED FOR THE ANALYSIS OF FRANCHISE
7 DISCLOSURE DOCUMENTS THAT WERE REJECTED;

8 ~~(4)~~ (5) A DESCRIPTION OF PROGRAMS IN OTHER STATES THAT ADDRESS
9 EXEMPTIONS FOR ~~CERTAIN~~ ESTABLISHED FRANCHISORS, INCLUDING THE ELIGIBILITY STANDARDS BY WHICH
10 THE APPROPRIATE AUTHORITY MAKES DETERMINATIONS REGARDING ESTABLISHED FRANCHISORS;

11 ~~(5)~~ (6) AN ANALYSIS OF WHETHER ~~THE PROGRAM EFFECTS CONSUMER~~
12 ~~PROTECTION, AND THE EXTENT TO WHICH, THE PROGRAM MAINTAINS OR ENHANCES THE PROTECTIONS~~
AFFORDED TO PROSPECTIVE FRANCHISEES UNDER THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE
LAW, INCLUDING:

(I) AN EVALUATION OF WHETHER THE EXPEDITED REVIEW OF FRANCHISOR
REGISTRATION APPLICATIONS UNDER THE PROGRAM DIMINISHES THE EFFICACY OF THE
DISCLOSURE REQUIREMENTS AND REVIEW STANDARDS; AND

(II) A DESCRIPTION OF ANY FRANCHISEE PROTECTION BENEFITS THAT MAY RESULT
FROM A MORE TIMELY AND EFFICIENT REGISTRATION PROCESS; AND

13 ~~(6)~~ (7) INFORMATION REGARDING THE EFFICIENCY OF THE REVIEW OF
14 FRANCHISE DISCLOSURE DOCUMENTS SUBMITTED FOR PARTICIPATION IN THE PROGRAM AND FRANCHISE
DISCLOSURE DOCUMENTS THAT WERE NOT SUBMITTED FOR PARTICIPATION IN THE PROGRAM, INCLUDING
15 INFORMATION CONCERNING:

15 (I) COMMENTARY PERIODS;

16 (II) AMENDMENT PERIODS;

17 (III) THE TIME FOR COMPLETION OF SUBMISSION AND REVIEW
18 OF FRANCHISE DISCLOSURE DOCUMENTS;

19 (IV) THE NUMBER OF REVIEWERS; AND

20 (V) THE AVERAGE NUMBER OF FRANCHISE DISCLOSURE
21 DOCUMENTS SUBMITTED EACH YEAR.

22 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect
23 October 1, 2026. Section 2 of this Act shall remain effective for a period of 6 years and, at
24 the end of September 30, 2032, Section 2 of this Act, with no further action required by the
25 General Assembly, shall be abrogated and of no further force and effect.

SB415_SponsorAmendment

Uploaded by: Pamela Beidle

Position: FAV



SB0415/873829/1

AMENDMENTS
PREPARED
BY THE
DEPT. OF LEGISLATIVE
SERVICES

25 FEB 26
10:40:40

BY: Senator Beidle
(To be offered in the Finance Committee)

AMENDMENTS TO SENATE BILL 415
(First Reading File Bill)

AMENDMENT NO. 1

On page 1, strike beginning with “requiring” in line 7 down through “index;” in line 9; in line 19, strike “14–102;” and in the same line, strike “14–214.”

AMENDMENT NO. 2

On page 2, strike in their entirety lines 2 through 11, inclusive; and strike beginning with “**UNDER**” in line 15 down through “**BRANDS**” in line 16.

On page 3, in line 5, after “**TRANSPARENCY,**” insert “**AND**”; and in the same line, strike “, **AND FAIR DEALING**”.

On pages 4 and 5, strike in their entirety the lines beginning with line 21 on page 4 through line 24 on page 5, inclusive.

On page 5, in line 27, strike “**OR FRANCHISOR**”.

On page 7, in line 3, strike “**5**” and substitute “**4**”; strike beginning with “**THE**” in line 4 down through “**(II)**” in line 6; strike beginning with “**OF**” in line 6 down through “**FRANCHISE**” in line 7 and substitute “**THE FRANCHISE OPENED TO THE PUBLIC**”; and strike beginning with “**INDIVIDUAL**” in line 23 down through “**SECTION**” in line 24 and substitute “**OWNER OF THE FRANCHISED BUSINESS**”.

On page 8, in line 18, after “**DOCUMENTS**” insert “, **INCLUDING FRANCHISE DISCLOSURE DOCUMENTS THAT WERE NOT SUBMITTED FOR PARTICIPATION IN THE PROGRAM**”.

On page 9, in line 3, after “(2)” insert “THE NUMBER OF FRANCHISORS THAT PARTICIPATED IN THE PROGRAM;

(3)”;

in lines 4, 8, 11, and 13, strike “(3)”, “(4)”, “(5)”, and “(6)”, respectively, and substitute “(4)”, “(5)”, “(6)”, and “(7)”, respectively; in line 9, strike “CERTAIN” and substitute “ESTABLISHED”; in the same line, after “THE” insert “ELIGIBILITY”; in line 10, after “DETERMINATIONS” insert “REGARDING ESTABLISHED FRANCHISORS”; strike beginning with “THE” in line 11 down through “PROTECTION” in line 12 and substitute “, AND THE EXTENT TO WHICH, THE PROGRAM MAINTAINS OR ENHANCES THE PROTECTIONS AFFORDED TO PROSPECTIVE FRANCHISEES UNDER THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE LAW, INCLUDING:

(I) AN EVALUATION OF WHETHER THE EXPEDITED REVIEW OF FRANCHISOR REGISTRATION APPLICATIONS UNDER THE PROGRAM DIMINISHES THE EFFICACY OF THE DISCLOSURE REQUIREMENTS AND REVIEW STANDARDS; AND

(II) A DESCRIPTION OF ANY FRANCHISEE PROTECTION BENEFITS THAT MAY RESULT FROM A MORE TIMELY AND EFFICIENT REGISTRATION PROCESS”;

and in line 14, after “DOCUMENTS” insert “SUBMITTED FOR PARTICIPATION IN THE PROGRAM AND FRANCHISE DISCLOSURE DOCUMENTS THAT WERE NOT SUBMITTED FOR PARTICIPATION IN THE PROGRAM”.

MSBA - Business Law Section -- Testimony Franchise

Uploaded by: David Cahn

Position: FWA



February 24, 2026

Senator Pamela Beidle, Chair
Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, Maryland 21401

Re: MSBA Business Law Section Council -- Senate Bill 415 – Favorable with Amendments

Dear Senator Beidle and Fellow Committee Members:

The Business Law Section Council (the “Section Council”) of the Maryland State Bar Association (the “MSBA”) annually reviews proposed legislation that may affect Maryland businesses. We do so as volunteers interested in the advancement of business regulatory law in Maryland.

The Section Council has reviewed Senate Bill 0415 “Business Regulation – Maryland Franchise Registration and Disclosure Law – Alterations” (“SB 415”), colloquially titled the Franchise Reform Act, as well as rough drafts of amendments that we have been told that the Committee Chair intends to request at the Committee hearing. Because I have primarily represented clients concerning the franchisor and franchisee relationship for over 25 years, mainly in Maryland, the Section Council’s current Chair, I. DeAndrei “Dee” Drummond, has authorized me to submit this letter on the Section Council’s behalf.

The Section Council supports SB 415, with amendments, for the reasons explained below.

The law at issue, Maryland Business Regulation Section 14-201 *et seq.*, as currently constructed (the “Franchise Law”) is focused on requiring franchisors to provide certain disclosures to franchisees, in the form of an offering prospectus or franchise disclosure document (“FDD”), and requiring that, before selling a franchise to a Maryland Franchisee, a franchisor submit the FDD to the Maryland Securities Commissioner for its review for compliance with FDD preparation guidelines, which is called registration. (The Securities Commissioner is an officer within the Office of the Attorney General.) The registration to sell franchises must be renewed annually.

The bill would direct the Securities Commissioner to continue its pilot program that incentivizes existing franchisors to submit their registration renewal applications shortly after the beginning of their fiscal, typically beginning on January 1, as opposed to filing within 30 days of their registration’s expiration date – which is typically during the spring. The spring filing franchise registration renewal rush, which is related to compliance with the Federal Trade Commission’s Franchise Sales Rule, has resulted in a crush of renewal applications that the Securities Commissioner’s staff must review each spring, frequently resulting in delays in renewal completions. This has caused many complaints about the agency by franchisors nationally, and by their prospective franchisees in Maryland.

The pilot program permits the franchisors to submit their renewal application after making most updates that are required annually, but before completion of their annual financial statement audit (which, under the FTC Franchise Rule, must be completed within 120 days of the end of the franchisor’s fiscal year). The Securities Commissioner’s staff will review the changes, including those proposed to the

standard franchise agreement, and provide comments that will facilitate prompt completion of the registration process by the end of the first quarter of that fiscal year if the franchisor is responsive to the Commissioner's requests and completes its audit efficiently. However, since not all franchisors will take advantage of the pilot program, it should result in the Securities Division's FDD review workload being spread out more equally during the year, which will improve its efficiency and responsiveness to renewal filings for the benefit of all. The bill will require the Securities Commissioner to report on the results of the pilot program and the overall efficiency of its registration review function, which may spur the Commissioner's staff to perform their duties with greater efficiency and public benefit.

The bill also will make changes for the benefit of franchisees. For the first time, the Franchise Law (in new Section 14.233) will address the imbalance of power between franchisees and franchisors within the ongoing relationship, by prohibiting a franchisor from restricting or inhibiting franchisees from associating together for their common benefit "for any lawful purpose" – which could include collectively raising grievances with the franchisor for the franchisees' mutual benefit. Franchisees will have a right to sue for injunctive relief and damages, in Maryland, if the franchisor violates this prohibition. This provision mirrors "free association" laws passed in other states such as California and Illinois. Franchisee associations have been valuable resources for franchisees to curb franchisor initiatives to profit at the franchisees' expense, and to allow franchisees to use collective purchasing power through cooperatives.

We request that the period during which franchisees to bring a claim under that new freedom of association section be **amended** to the earlier of 3 years from when the violation occurs or 2 years from when the franchisee discovers the violation, because many franchise agreements require that a franchisee mediate a claim before filing a lawsuit, and the short period to bring a claim will incentivize litigation instead of compromise through direct negotiation or mediation.

We understand that the Chair will request a change to page 7, lines 22 through 25, so that they will now read, "The injunctive relief may be sought from the circuit court in the county where the franchise affected by the violation conducts business, or the owner of the franchised business resides." While we support the amendment, we think the word "owner of the franchised business" is too broad, because many franchised businesses are owned by multiple people, some of whom may own a small passive interest in the business. **We suggest that "owner of the franchised business" be replaced with "franchisee."**

We also recommend that **the definition of "Franchisee" be amended** in the statute's Section 14-201(g) to recognize how franchising has developed over the past 46 years since enactment of the Franchise Law. "Franchisee" is currently defined as "a person to whom a franchise is granted." However, since a "person" under law can be a limited liability entity, this can lead to unfair results. That is because, while the franchise rights usually are "granted to" a limited liability entity, nearly all franchisors require each individual who owns substantial equity in the franchisee entity to personally guarantee that the entity will satisfy all of its obligations to the franchisor, and require those owners to be personally bound by covenants not to compete, not to solicit, and to maintain confidentiality as if they were the franchisee.

Therefore, "Franchisee" should now be defined as "a person to whom a franchise is granted, or who personally guarantees satisfaction of the obligations of the franchisee as defined in the franchise agreement." This will make the statute consistent with its intention, which is to protect individuals who reside in Maryland against deception in the sale of franchises and, with this bill, from detrimental actions by a franchisor due to that human's efforts to collaborate with their fellow franchise owners for collective benefit. It also will recognize that, when a Maryland resident quits a job to purchase

a franchise from a franchisor violating the Franchise Law, that individual suffers damages in terms of lost wages and other opportunities that should be compensable, beyond the losses of the franchisee entity.

The bill will provide many franchisees with claims for violation of the registration or disclosure provisions of the Franchise Act with more time to enforce their rights under the Franchise Law, by expanding the time in which they can file claims. Currently, a private claim under Section 14-227 (the “Private Action”) must be brought within 3 years of when the franchisee bought the franchise rights. That limitation sometimes is unfair, particularly for substantial investment franchises for which it sometimes takes 2 or more years to find and develop a location and open for business. However, for smaller investment services franchises, which often open within 1 year of purchase, the current limitations period is sufficient to permit the franchisee to determine whether it was misled into buying and pursue justice.

We understand that the Chair will request that that portion of the bill, on page 7, lines 1 to 7, be revised to read, “An action under this section must be brought within the earlier of 4 years after the grant of the franchise; or 2 years after the date the franchise opened to the public.” **We support this amendment** but think that the following words should be added at the end, after the word “public”: “or begins providing services or selling goods to paying customers”. That is necessary because some franchised businesses are never “open to the public,” but all most provide goods or services to paying customers.

We understand that the Chair also will request an amendment to the Private Action section, page 5, line 27 of the bill, so that a Private Claim can be brought only if the franchisee is a Maryland resident or the franchised business operates in the state. This would eliminate the current right of out-of-state franchisees to bring an action against of Maryland-based franchisors for violations of the law’s registration or disclosure requirements. *We think that this will incentivize franchising activity from Maryland to the benefit of its economy, by eliminating exposure that few other states impose on franchisors operating from their state, unless the franchisee is also a resident.*

We also suggest these technical amendments:

Page 2, line 20, delete “Franchisors” from the class of people the bill is intended to protect.

Page 6, line 22, either strike existing language about partnerships (which are nearly extinct) and substitute “each owner of a limited liability company who participates in managing the company”, or add the quoted language for limited liability companies as a new subpart in Section 14-227(E)(1), as to joint and several liability for people participating in violations of the registration and disclosure provisions.

Overall, the bill addresses important deficiencies in the Franchise Law, will benefit Maryland franchisees and Maryland-based franchisors, and may approve administrative efficiency for the benefit of all participants in franchising. We commend the Chair for introducing it, and we urge your Committee to report it favorably, following amendments, so that it can advance to become law.

Sincerely,



David L. Cahn
Past Chair, Business Law Section Council
Co-Chair, Franchise Law Committee

2026_02_26 SB 415 Franchise Reform Act.pdf

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February 26, 2026

TO: The Honorable Pamela Beidle
Chair, Finance Committee

FROM: Tiffany Clark
Director, Legislative Affairs, Office of the Attorney General

RE: Senate Bill 415 – Business Regulation - Maryland Franchise Registration and Disclosure Law - Alterations (Franchise Reform Act)(Support in Concept)

The Office of the Attorney General (OAG) supports in concept **Senate Bill 415 - Business Regulation – Maryland Franchise Registration and Disclosure Law – Alterations (Franchise Reform Act)**. SB 415 modernizes Maryland's Franchise Registration and Disclosure Law by extending enforcement and private action statutes of limitations, codifying a fast-track review program for franchise renewal applications, strengthening franchisee association protections, and requiring reporting on franchise registration efficiency.

This legislation directly supports OAG's efforts to protect franchisee investors through the Securities Division's administration of Maryland's franchise registration and disclosure requirements. Several of the bill's provisions represent meaningful improvements to the existing framework. The Securities Division supports extending the statute of limitations for both agency enforcement actions and private civil claims, which will enhance our ability to address franchise fraud and provide investors with a more meaningful window for relief. We also support the new provision protecting franchisees' rights to join and organize through franchisee associations, which plays an important role in ensuring franchisees can advocate for their interests.

We appreciate the intent of this legislation to modernize Maryland's franchise registration and disclosure framework and strengthen protections for franchisee investors. However, as currently structured, HB 730 would impose significant new administrative obligations on the Securities Division that cannot be met within our existing resources. The bill would codify a new fast-track

This bill letter is a statement of the Office of Attorney General's policy position on the referenced pending legislation. For a legal or constitutional analysis of the bill, Members of the House and Senate should consult with the Counsel to the General Assembly, Sandy Brantley. She can be reached at 410-946-5600 or sbrantley@oag.state.md.us.

review program and require the Securities Commissioner to create standards for reviewing incomplete franchise disclosure documents, track program data, and submit a comprehensive legislative report by September 30, 2031.

The Securities Division currently operates with only two Assistant Attorneys General and two franchise examiners. The Securities Division has an open vacancy for a third franchise examiner, and they hope to hire someone to fill that position. An extended statute of limitations, while beneficial, will generate additional enforcement actions. The bill would require the Securities Commissioner to report on the efficiency of the review of franchise disclosure documents, both under the fast-track review program and generally, including commentary periods, amendment periods, time for completion of submission, and review of those documents. In addition, the Securities Commissioner must include an analysis of whether and how the fast-track program maintains or enhances protections to prospective franchisees under the Maryland Franchise Law and whether the expedited review of franchisor registration applications under the fast-track program diminished the efficacy of the disclosure requirements and review standards. Finally, the Securities Commissioner also must identify in that report any franchisee protection benefits resulting from a more timely and efficient registration process.

The Securities Commissioner has estimated that full implementation of this bill would require, at a minimum, one additional Assistant Attorney General, one additional franchise examiner, and either an IT specialist or dedicated funding to build and maintain a new database.

Without these resources, enactment of SB 415 would shift the Securities Division's priorities away from its core investor protection mission and create compliance burdens the Division cannot meet. We appreciate the General Assembly's work on this important policy and welcome the opportunity to share our perspective. For the foregoing reasons, the Office of the Attorney General respectfully urges the Committee to give SB 415 a favorable report, contingent on the provision of the additional resources identified in the fiscal note accompanying the bill.

Cc: Members of the Committee